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UNCLAS SECTION 01 OF 02 YEREVAN 000520

SIPDIS

COMMERCE FOR 3150/PBRADLEY/BSMITH  
COMMERCE FOR 4201/ITA/IEP/OEERIS/BISNIS/EHOUSE  
EMBASSIES - PLEASE PASS FCS  
DEPT FOR EUR/CACEN, EB/CBA  
ANKARA ALSO FOR CFC/ SNYDER/BALLINGER  
PASS TDA-STEIN, OPIC, EXIM-TUMMINIA/PANARO

E.O. 12958: N/A

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SUBJECT: (IMI) ARMENIA, COMMERCIAL NEWS SUMMARY:  
MARCH, 2005

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SUMMARY  
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1. This cable summarizes press reporting on commercial developments in Armenia for March 2005. Major headlines include:

-- Germany's Commerzbank to support SME lending program in Armenia;

-- Armentel reports earnings up 70 percent in 2004;

-- German development bank KFW continues financing the Sevan-Hrazdan hydro power plants' reconstruction;

-- USDA Marketing Assistance Project in Armenia restructured into a locally-registered foundation;

-- Armenian tax laws to form new tax code; and

-- Armenia's February economic highlights

END SUMMARY.

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GERMANY'S COMMERZBANK TO SUPPORT SME LENDING IN ARMENIA  
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2. Germany's Commerzbank is negotiating with several Armenian commercial banks to establish a fund of credit guarantees. The fund would attract financial resources to be used for lending to SMEs in Armenia. According to the German KFW Bank representative in Armenia, KFW will be a guarantor of the attracted financial resources, securing 90 percent of the loan amount. The total program cost is 7.8 million euros.

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ARMENTEL REPORTS EARNINGS UP 70 PERCENT IN 2004  
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3. Armenia's national telecommunications provider, Armentel, reported net profit up 70 percent to 20,499 million euros in 2004. Revenue grew 22.2 percent to 85.2 million euros, including a 46 percent growth, to 27,483 million euros, from mobile services as the number of mobile subscribers rose to 203,309 from 111,188 at the beginning of 2004. Revenue from fixed telephone services rose 25.3 percent to 28,176 million euros, and revenue from international services grew 4.7 percent to 26,265 million euros. Armentel lost its monopoly on mobile services in November 2004, and a second mobile operator, K-Telecom is set to begin offering services in May this year. Greece's OTE owns 90 percent of Armentel, and the Armenian government owns 10 percent.

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GERMAN BANK KFW CONTINUES FINANCING THE SEVAN-HRAZDAN HYDRO POWER PLANTS' RECONSTRUCTION  
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4. Germany's KFW plans to provide another loan to upgrade generating facilities at one of the six hydro power plants of the Sevan-Hrazdan Cascade, the third to be upgraded by KFW funding. In 2000, KFW financed the restoration of the Kanaker HPP. In 2004, KFW signed a 15 million euro credit agreement on financing the refurbishment of the Yerevan HPP. The government of Armenia sold the plants to Russia's RAO-UES in 2003 in exchange for the latter's assumption of USD 43 million in energy arrears.

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USDA MARKETING ASSISTANCE PROJECT RESTRUCTURED  
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15. The U.S. Department of Agriculture's Marketing Assistance Project (USDA MAP) in Armenia is converting into the Center for Agribusiness and Rural Development (CARD), a locally-registered foundation. It will focus primarily on providing technical, financial, and marketing assistance to farmers and private agribusiness companies throughout the regions in Armenia. CARD will be managed by a Board of Trustees and an executive director. USDA Foreign Agricultural Service will be the main financial source for the newly-established foundation.

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ARMENIAN TAX LAWS TO FORM NEW TAX CODE  
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16. The Armenian government is working to harmonize and consolidate all the various tax laws into a single tax code. According to the Armenian Deputy Minister of Finance and Economy, the new code will streamline tax administration and eliminate the current discords in tax legislation.

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ARMENIA FEBRUARY ECONOMIC HIGHLIGHTS  
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17. Armenia's National Statistical Service reported that the country's real GDP in January-February 2005 grew by 7 percent to USD 321.9 million. Armenia's foreign trade in January-February 2005 increased by 45.3 percent to USD 346.6 million. The inflation rate in February 2005 was 4.8 percent.

EVANS